
Audit of Eligibility Under the 85 Percent Rule at
Taylor Business Institute
Chicago, Illinois

FINAL AUDIT REPORT



Audit Control Number 05-90013
February 1999

Our mission is to promote the efficient
and effective use of taxpayer dollars
in support of American education



U.S. Department of Education
Office of Inspector General
Chicago, IL

NOTICE

Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by appropriate Department of Education officials. This report may be released to members of the press and general public under the Freedom of Information Act.

February 18, 1999

MEMORANDUM

TO: Greg Woods
Chief Operating Officer
Office of Student Financial Assistance Programs

FROM: Richard J. Dowd
Regional Inspector General
for Audit - Region V

SUBJECT: FINAL AUDIT REPORT
Taylor Business Institute
Audit of Eligibility Under the 85 Percent Rule
ED Audit Control Number A05-90013

Attached is the final audit report of Taylor Business Institute's Eligibility Under the 85 Percent Rule. In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the findings and recommendations in this report.

If you have any questions or wish to discuss the contents of this report, please contact me at 312-886-6503. Please refer to the above audit control number in all correspondence relating to this report.

Attachment

February 18, 1999

Janice Parker, President
Taylor Business Institute
200 North Michigan Avenue, Suite 301
Chicago, Illinois 60601

Dear Ms. Parker:

This **AUDIT REPORT** presents the results of our review of Taylor Business Institute's eligibility under the 85 Percent Rule.

AUDIT RESULTS

Taylor Business Institute (Institute) used the wrong Title IV and non-Title IV revenue amounts in its 85 Percent Rule calculation for the fiscal year ended December 31, 1997. The Institute (1) classified Federal Family Education Loan (FFEL) program revenue as non-Title IV revenue, (2) included Federal Work Study (FWS) in the Title IV revenue, and (3) included revenue not derived from tuition related activities in the calculation. As a result of these errors, the Institute reported its non-Title IV revenues as 37.8 percent. In addition, the Institute's accounting records used for Title IV revenues were inadequate. Based on our audit work, we concluded that, despite the errors, the Institute met the 85 Percent Rule by deriving approximately 31 percent of its revenues from non-Title IV sources. However, we remain concerned with the Institute's inadequate accounting records. The Institute concurred with our finding and recommendations. A copy of the Institute's response is attached.

According to Title 34 Code of Federal Regulations (CFR) Part 668.24(a)(1), an institution shall establish and maintain program records that document its eligibility to participate in the Title IV, Higher Education Act (HEA) programs. To be eligible to participate, a proprietary institution shall have no more than 85 percent of its revenues derived from Title IV, HEA program funds as determined under 34 CFR Part 600.5(d). Therefore, the Institute is required to prepare and maintain adequate records to support its eligibility under the 85 Percent Rule.

When examining total revenues, 34 CFR 600.5(d)(1) indicates the sum of revenues will include only tuition, fees, and other institutional charges for students enrolled in eligible programs and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges, that are necessary for the education or training of its students who are enrolled in those eligible programs. Further, 34 CFR 600.5(d)(2)(ii) states that the Title IV, HEA program funds included in the numerator do not include FWS program funds.

Our review of the Institute's accounting records used for its 85 Percent Rule calculation found that it incorrectly classified \$36,256 in FFEL program Title IV revenue as non-Title IV revenue, included \$45,301 in FWS, and included \$144,540 in miscellaneous revenues derived from non-tuition related activities. The miscellaneous revenues included loans to the Institute, business refunds, and telephone commissions. In addition, the Institute's PMS 272 monthly draw down totals for the Federal Pell Grant Program and Federal Supplemental Educational Opportunity Grant Program did not agree with the ACH/EFT Voucher Request Records. According to Institute officials, the Institute's President arbitrarily lowered the amounts requested on the draw downs based on the Institute's funding needs without adjusting the supporting student lists. This practice resulted in draw down amounts that do not agree with the amounts in the supporting documentation. An Institute official informed us that the Institute does not have written policies and procedures for gathering and documenting revenue figures used in the 85 Percent Rule calculation. We believe the lack of written policies and procedures had an adverse effect on the accuracy of the calculation and the accounting records.

In a written response to our finding point sheet, the Institute concurred with our finding and noted that its fiscal year 1997 financial statements incorrectly reported that 37.8 percent of its revenues were derived from non-Title IV sources. The Institute indicated that it would take corrective action by moving to a comprehensive database software system by March 1999 to greatly improve data tracking, retrieval, and access between departments. An Institute official told us that key employees will attend training programs in accounting for student financial aid funds and performing the 85 Percent Rule calculation. The Institute's comments are attached to the report.

Recommendations

We recommend that the Office of Student Financial Assistance Programs (OSFAP) instruct the Institute to:

1. Establish and implement written policies and procedures for gathering and documenting revenue figures used in the 85 Percent Rule calculation.
2. Ensure that key employees receive scheduled training in accounting for student financial aid funds and performing the 85 Percent Rule calculation.

BACKGROUND

Taylor Business Institute is a proprietary school located in Chicago, Illinois. The Institute is approved by the Illinois State Superintendent of Education and accredited by the Accrediting Council for Independent Colleges and Schools. Janice Parker, the current owner, originally owned 50 percent of the Institute's stock. In April 1997 the remaining 50 percent of the Institute's stock was transferred to Janice Parker. With the transfer she became the sole proprietor.

From January 1, 1997 through December 31, 1997, the Institute was eligible to participate in the FWS, Federal Student Education Opportunity Grant Program, and Federal Pell Grant Program. The Institute lost its eligibility to participate in the FFEL program in October 1996 due to its high default rate. However, during the year ended December 31, 1997, the Institute received \$36,256 from the FFEL program for students who were eligible to participate in the programs before the Institute lost its eligibility to participate.

AUDIT SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether the Institute derived at least 15 percent of its revenues from non-Title IV sources, properly reported the percentage in its financial statements, and, if applicable, reported the failure to meet the percentage to the U.S. Department of Education. Our audit period was January 1, 1997 through December 31, 1997. To achieve our purpose, we:

1. Interviewed Institute personnel.
2. Reviewed the audited financial statements and related working papers prepared by the accounting firm Kessler, Orlean, Silver & Company, P.C.
3. Reviewed the Institute's 85 Percent Rule calculation spreadsheet, bank records, fiscal operation report, and other records relating to the 85 Percent Rule calculation.
4. Recalculated the 85 Percent Rule calculation.

We conducted on-site field work at the Institute between December 7, 1998 and January 7, 1999, and performed work at the accounting firm's office on December 8, 1998. We conducted our audit in accordance with government auditing standards appropriate to the scope described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we made an assessment of the Institute's management control structure, policies, procedures, and practices applicable to our 85 Percent Rule audit. The purpose of our assessment was to determine the level of control risk; that is, the risk that material errors, irregularities, or illegal acts may occur. The control risk assessment was performed to assist us in determining the nature, extent, and timing of substantive tests needed to accomplish our audit purpose and objectives.

To make the assessment, we identified and classified the significant management controls into the following categories:

1. Title IV revenue
2. Non-Title IV revenue

3. 85 Percent Rule calculation

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, our assessment disclosed weaknesses specifically related to the area of performing the 85 Percent Rule calculation. These weaknesses are discussed in the "AUDIT RESULTS" section of this report.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on the audit:

Greg Woods, Chief Operating Officer
Office of Student Financial Assistance Programs
U.S. Department of Education
Regional Office Building, Room 4004
7th and D Streets, SW
Washington, D.C. 20202

Office of Management and Budget Circular A-50 directs Federal agencies to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 35 days would be greatly appreciated.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and the general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

Richard J. Dowd
Regional Inspector General
for Audit - Region V

Attachment

Taylor Business Institute

200 North Michigan Avenue, Suite 301, Chicago, Illinois 60601 • (312) 658-5100 • Fax (312) 658-0867

January 7, 1999

Mr. Richard J. Dowd
Regional Inspector General for Audit
U.S. Department of Education
OIG Office of Audit Services
111 North Canal Street, Suite 940
Chicago, IL 60606

OPE ID #: 01181000

Dear Mr. Dowd:

Following is Taylor Business Institute's response to the Finding Point Sheet issued by your office in December 1998.

OIG's Finding:

The Office of the Inspector General in its Finding Point Sheet titled "Inadequate Accounting Records" states that: Taylor Business Institute's accounting records used for the 85/15 calculation are inadequate.

Specifically, the Finding indicates: "That the spreadsheet of revenues to make the 85/15 calculation contained several errors. . . . The Institute does not have adequate written policies and procedures for gathering and documenting revenue figures used for the 85/15 calculation. It should also be pointed out that while the OIG cited the above problems, it also stated that Taylor is in compliance with the 85/15 requirement and that approximately 30% of its revenues is derived from non-Title IV sources.

School's Response

While Taylor staff did not do the 85/15 calculation for the financial statements, it recognizes and takes very seriously its Title IV responsibilities. Taylor also realizes that it was remiss in not checking the CPA/audit more carefully nor having previously developed/implemented/maintained its own internal (written) policies and procedures for gathering, calculating and documenting the 85/15 requirement.

Taylor has worked diligently to both revise its 85/15 calculation for FY 97 and insure a proper audit trail (including all supporting documentation). Taylor further recognizes the severity of the situation and is taking corrective action which will insure that all inadequacies cited will be corrected in a timely/efficient manner and that management systems will be put in place to insure that this problem will never again occur.

No. of
Copies

Region V Audit Office Electronic Copies (2)

1. Statement of Financial Position

Entity: Business Unit Info Data Inc. (collectively owned under 100% by the Government of Canada) is a private company with the Financial Statements for the 2016-2017 Fiscal Year audited by PricewaterhouseCoopers.

After selecting and transferring these schedules of Affairs included in error, the resulting Financial Statement is as follows:

Table 1: Income Statement

1. Title / Budget Code	83W-129	2016/17 Actuals	2016/17 Budget
2. <u>TELLERIALS (COSTS)</u>	83W1,544		
3. Total			
4. Total			
5. Total			
6. Total			
7. Total			
8. Total			
9. Total			
10. Total			
11. Total			
12. Total			
13. Total			
14. Total			
15. Total			
16. Total			
17. Total			
18. Total			
19. Total			
20. Total			
21. Total			
22. Total			
23. Total			
24. Total			
25. Total			
26. Total			
27. Total			
28. Total			
29. Total			
30. Total			
31. Total			
32. Total			
33. Total			
34. Total			
35. Total			
36. Total			
37. Total			
38. Total			
39. Total			
40. Total			
41. Total			
42. Total			
43. Total			
44. Total			
45. Total			
46. Total			
47. Total			
48. Total			
49. Total			
50. Total			
51. Total			
52. Total			
53. Total			
54. Total			
55. Total			
56. Total			
57. Total			
58. Total			
59. Total			
60. Total			
61. Total			
62. Total			
63. Total			
64. Total			
65. Total			
66. Total			
67. Total			
68. Total			
69. Total			
70. Total			
71. Total			
72. Total			
73. Total			
74. Total			
75. Total			
76. Total			
77. Total			
78. Total			
79. Total			
80. Total			
81. Total			
82. Total			
83. Total			
84. Total			
85. Total			
86. Total			
87. Total			
88. Total			
89. Total			
90. Total			
91. Total			
92. Total			
93. Total			
94. Total			
95. Total			
96. Total			
97. Total			
98. Total			
99. Total			
100. Total			

Page 2 of 2

Page 2 of 2